SUBCOMMITTEE ON SPACE AND AERONAUTICS
COMMITTEE ON SCIENCE
U.S. HOUSE OF REPRESENTATIVES

HEARING CHARTER

Financial Management at NASA: Challenges and Next Steps

October 27, 2005
10:00 a.m. to 12:00 p.m.
2318 Rayburn House Office Building

Purpose

On Thursday, October 27, 2005 at 10:00, the Committee on Science, Subcommittee on Space and Aeronautics and the Committee on Government Reform, Subcommittee on Government Management, Finance and Accountability, will hold a joint hearing to examine the difficulties that the National Aeronautics and Space Administration (NASA) faces in managing and reporting on its finances, the effects these difficulties have on NASA's ability to manage its programs, and NASA's current and planned efforts to address these challenges.

For several years, NASA has had significant difficulties in managing its financial operations. Auditors have not been able to sufficiently audit NASA's financial statements for three of the past four years, citing a lack of documentation and weak controls over numerous processes. The Government Accountability Office (GAO) has issued reports about NASA's inability to manage and account for the costs of its programs. In 2003, NASA replaced ten disparate accounting systems with one agency-wide financial management system. However, this system has had numerous operational problems that NASA has been trying to resolve since its inception. While NASA has made some improvements to some aspects of its financial management, it still has numerous, significant problems to overcome.

Overarching Questions

The Committee plans to explore the following overarching questions at the hearing:

1. What are the key financial management challenges at NASA? What are their underlying causes?

2. What effects do these challenges have on NASA's ability to manage its programs and its resources?

3. What progress has NASA made in addressing these challenges? What further actions are planned? Are these actions adequate?

Witnesses

Mr. Robert Cobb is the Inspector General of NASA.

Ms. Gwendolyn Sykes is the Chief Financial Officer of NASA.

Mr. Patrick Ciganer is the Executive Officer for NASA's Integrated Financial Management Program.

Mr. Gregory Kutz is the Managing Director of Forensic Audits and Special Investigations at GAO. Accompanying Mr. Kutz will be **Mr. Allen Li**, Director, Acquisition and Sourcing Management.

Issues

The hearing will cover the following issues with regard to NASA's ability to manage its finances:

- **Unsatisfactory Audit Results—**In three of the past four years, independent auditors have been unable to give NASA's financial records a clean opinion, and the Government Accountability Office (GAO) has called into question the reliability of the remaining year's audit.

- **Lack of an Improvement Plan—**While NASA originally disputed the findings of the GAO and the agency's independent auditors, it later accepted all of them and agreed to implement each of the recommendations. In 2004, NASA committed to developing a plan for implementing each of the recommendations and to providing the Office of the Inspector General and the Science Committee with a copy of the plan. However, NASA has yet to provide anything other than an executive summary.

- **Problems Remain in NASA's New Financial Management System—**NASA has purchased a complex system to manage its finances and other aspects of the agency, such as human resources. In 2003, NASA brought online the Core Financial module, bringing all ten NASA centers under a single accounting system for the first time. However, in 2004, outside auditors found that the Core Financial module failed to post certain transactions correctly, did not integrate well with other aspects of the financial management system, and did not contain sufficient controls to ensure that invalid data could be detected in a timely fashion. NASA is hoping that a major upgrade of its Core Financial module, which it plans to implement in fiscal year 2006, will help resolve many of these issues. Until then, NASA will not will not be able to comply fully with the Federal Financial Management Improvement Act. GAO has faulted NASA for rushing to implement the Core Financial module before it had developed an overall plan, or architecture, for the entire multi-module system. GAO has issued four reports identifying weaknesses in NASA's approach to implementing its financial management system and containing 45 recommendations to the agency to correct these problems. At today's hearing, GAO is releasing a new report finding

that NASA has fully implemented only three of these recommendations and partially implemented another 13.

- **Inability to Reconcile NASA's Balance with Treasury—**In 2003, NASA's independent auditors found that the agency could not reconcile a net difference of $1.7 billion between its financial records and NASA's balance in the U.S. Treasury. But the "gross" value, or the absolute value of each unreconciled transaction added up to $8.6 billion, according to the auditors. As of March 2005, NASA's Inspector General determined that the agency had successfully reconciled all but $144 million of the net difference, but that the absolute value of the unreconciled transactions continued to exceed $7 billion. In September, NASA's Chief Financial Officer (CFO) provided each NASA Center guidelines for writing off portions of the remaining unreconciled transactions. According to NASA, its balance now agrees with the Treasury after Centers wrote off a total of $14 million in unreconcilable transactions. However it is unclear what the absolute value is of these transactions adds up to.

- **Weak Internal Controls Remain—**NASA's independent auditors have said repeatedly that NASA needs to strengthen its internal controls – the policies and practices intended to provide reasonable assurance about the accuracy of its financial information – especially given weaknesses in the agency's Core Financial module. Such controls help an agency ensure that its employees or contractors are not abusing their purchasing authority or otherwise committing fraud. NASA's Office of the Inspector General said that NASA still must make substantial adjustments to its quarterly financial statements produced by the Core Financial module and that the agency continues to fail to provide sufficient documentation for financial data to ensure its reliability. Under such conditions, according to the Office of Inspector General, NASA is less likely to detect waste, fraud, or abuse.

- **Contract Management at High Risk for Waste, Fraud, and Abuse—**Since 1990, GAO has consistently identified NASA's contract management practices as vulnerable to waste, fraud, and abuse, primarily due to NASA's lack of a modern financial system that can provide reliable information on contract spending and performance. NASA has been developing a Contract Management software package, but according to the Office of Inspector General, that software lacks the financial capabilities necessary to help the agency address GAO's concerns. NASA plans to upgrade its Contract Management software at some later date to provide the necessary financial data.

- **Inability to Account for Physical Property—**NASA reports that the value of its physical assets, including rockets, satellites and other hardware, totals more than $38 billion. However, NASA relies heavily on its contractors to accurately report the value of these assets to the agency, a serious weakness according to NASA's independent auditors. While the auditors have noted some recent improvements, NASA's Office of Inspector General noted that NASA cannot hope to receive a clean audit opinion until this issue is resolved.

Overview

Agencies need accurate, timely financial information to know how much their activities cost and to estimate their future costs. They also need effective controls over their operations that are designed to prevent or detect the occurrence of fraud, waste, or abuse of taxpayers' dollars. Moreover, Congress needs reliable financial information from agencies in order to carry out effective oversight of their operations.

Over the past several years, auditors have repeatedly reported on NASA's weak financial management and unreliable financial data. In three of the past four years, independent auditors reported that they were unable to express an opinion on NASA's financial statements. For example, for fiscal year 2003, NASA made $565 billion in adjustments—more than 37 times its total budget for that year—to correct errors and make other changes to its accounting records. The auditors could not find adequate documentation to support these adjustments. For fiscal year 2002, NASA received an unqualified[1] or "clean" audit opinion on its financial statements. However, a subsequent review by the Government Accountability Office (GAO) called into question the reliability of that audit. The following table summarizes NASA's financial audit results for the past five years.

Results of NASA's Recent Financial Audits

Fiscal Year	Audit Results
2000	"Clean" or unqualified opinion. Auditor was Arthur Andersen.
2001	New auditor, Pricewaterhouse Coopers (PWC), issued a disclaimer[2] of opinion.
2002	PWC gave a clean opinion. However, GAO reviewed the audit and questioned its reliability.
2003	PWC issued a disclaimer of opinion.
2004	New auditor, Ernst & Young, issued a disclaimer of opinion.

NASA's lack of reliable financial information can affect its ability to accurately track funds, manage the costs of its programs, and develop accurate cost estimates. For example, as a result of cost growth on the International Space Station in 2000, Congress legislated a cost cap for the program and directed GAO to verify that NASA was accurately accounting for all costs associated with the program. From 2001 through 2005, GAO repeatedly tried to determine if NASA was complying with the Congressional limits. However, because of poor record-keeping, NASA has been unable to provide GAO adequate information on how much money had been obligated for the Station.

[1] An unqualified opinion means that the financial statements fairly present an organization's financial position and results of operations in conformance with generally accepted accounting principles.

[2] A disclaimer of opinion means that the auditors were unable to determine the accuracy of the financial statements. This situation can occur if the organization has significant weaknesses in its internal controls or if the auditors are unable to perform sufficient audit work.

NASA's new Administrator, Dr. Michael Griffin, has expressed his intent to make improvement of NASA's financial management a priority. In his testimony before the Committee on Science in June of this year, he called the status of NASA's financial management "deplorable." He also said that it was unacceptable for NASA to be unable to meet the same financial standards to which it holds its contractors.

NASA's financial management weaknesses can be attributed primarily to two overarching conditions: the lack of an integrated financial management system and the lack of sufficient internal control policies and procedures. In the past few years, NASA has been working to address both of these issues and has made some progress, although much is left to do.

During fiscal year 2003, NASA implemented a new finance and accounting system throughout the entire agency. However, this system is not fully integrated with other financial-related systems, such as property management systems, and is not fully functioning as intended. GAO issued a series of reports in 2003 about weaknesses in NASA's implementation of the system. At this hearing, GAO is releasing a follow-up report about the status of its recommendations from the earlier reports.

In September 2004, NASA published a new set of NASA Financial Management Requirements as well as supplemental policy guidance for a number of issues. In addition, NASA has continued to make other changes in its financial operations during fiscal year 2005. For example, it began requiring the Chief Financial Officers (CFOs) at each of its ten field Centers to report directly to the NASA CFO, rather than to Center Directors, to help ensure that all Centers follow the same procedures. However, the Centers are somewhat resistant to change and have continued to follow some of their own procedures and use some of their own systems for specific purposes, despite the CFO's efforts to standardize all procedures throughout the agency. The impact that NASA's various new policies and procedures have on control over its financial operations cannot yet be determined, but should become more evident as the results of NASA's financial audit for fiscal year 2005 are released.

Financial Management System Issues

Until 2003, each of NASA's ten Centers and NASA Headquarters had their own separate accounting systems that were operated independently and were incompatible with each other. As a result, NASA did not have the ability to accumulate agency-wide financial data on a routine, systematic basis. Instead, it obtained NASA-wide data only through periodic data calls. NASA had made two attempts to develop an agency-wide system in the past—once in the late 1980s and again in the late 1990s—but both efforts were eventually abandoned. Because of its lack of an agency-wide system, NASA has not been in compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996, which requires Federal agencies to have integrated financial management systems that comply with specific Federal requirements.

In 2000, NASA began its third attempt to modernize its financial management systems and processes as it began developing an integrated financial management system, now

called the Integrated Enterprise Management Program or IEMP.[3] This system was initially planned to consist of nine modules that would support a wide range of business activities, including asset management, accounting and financial operations, and human capital management. As IEMP has progressed, NASA has changed some of its plans and has encountered significant problems in developing some of the modules, as explained further below. NASA initially planned to complete IEMP in fiscal year 2008 with an estimated life-cycle cost of almost $1 billion. NASA has stated that it still intends to complete development of IEMP by the end of 2008. However, it is unclear how NASA will meet this deadline after recently deciding to delay development of one module—the Integrated Asset Management module—until NASA changes its asset management procedures.

Except for the Core Financial module, the IEMP modules that have been implemented so far tend to be the less complex modules. The following table summarizes the status of IEMP's modules as currently defined.

Status of IEMP Modules

Module	Status
Resume Management	Implementation completed in FY 2002
Position Description	Implementation completed in FY 2002
Core Financial	Implemented in FY 2003; major upgrade to be completed in FY 2006 (see discussion below)
Travel Manager	Implementation completed in FY 2003
Budget Formulation	Development completed in FY 2004 but not implemented because of change in NASA budget structure
Contract Management	Under development; implementation planned for FY 2006
Integrated Asset Management	Development began in FY 2004; late in FY 2005, project was put on hold until NASA changes its asset management procedures
Recruitment	Implementation completed in October 2005
Labor Distribution	Implementation completed in October 2005
Payroll	Turned over NASA payroll function to Department of Interior's payroll system in fiscal year 2005

Core Financial Module

During fiscal year 2003, NASA implemented the most significant module of IEMP, the Core Financial module, which performs most of the agency's accounting and financial functions. The Core Financial module uses enterprise resource planning (ERP)[4] software from SAP, a large German company and one of only a handful of companies that make

[3] NASA recently renamed the system IEMP. Previously, it was called the Integrated Financial Management Program (IFMP).

[4] ERP software consists of multiple, integrated modules designed to perform all business-related functions of an organization, such as planning, inventory control, finance, and human resource management.

ERP software. SAP's software is used by many Fortune 500 companies and by other Federal agencies, including the Department of Defense and Customs and Border Patrol. NASA hired the consulting firm Accenture to develop and implement the module using SAP's software.

With the implementation of the Core Financial module, all ten NASA Centers and Headquarters began using one accounting system for the first time in NASA's history. However, the operation of the module has experienced problems since its inception. In their report on NASA's fiscal year 2004 financial statements, NASA's financial auditors stated that the Core Financial module:

- does not post certain transactions correctly,
- does not provide some information needed to support financial statements,
- is not integrated with certain subsidiary systems, and
- does not contain sufficient controls to detect and correct invalid data in a timely fashion.

These problems have occurred largely because NASA did not follow appropriate procedures for developing and implementing a complex system such as IEMP, and the core financial module in particular. GAO identified a number of weaknesses in the procedures that NASA followed, which are described further below.

Because of these weaknesses, NASA is still not in compliance with Federal Financial Management Improvement Act (FFMIA). NASA has been striving to stabilize and improve the operations of the Core Financial module since its implementation. It is now planning to install a major software upgrade for this module in fiscal year 2006, using a new version of SAP software, which it expects to significantly improve the module's performance and reliability.

Other IEMP Modules

NASA has had some difficulties in developing other modules of IEMP as well. During fiscal year 2004, it almost completed development and implementation of a Budget Formulation module at a reported cost of $29 million. This module was expected to significantly improve and streamline NASA's process for developing its annual budget. However, in late 2004, NASA changed its budget structure. Because the Budget Formulation module was based on the old budget structure, NASA shelved the module and decided to revise its old budget system for use with the new budget structure.

NASA had also recently begun the early stages of developing an Integrated Asset Management module which would maintain information on all of NASA's physical assets and automatically provide relevant information to the Core Financial module. However, during fiscal year 2005, NASA put this project on hold for two years until it revises its procedures for managing its physical assets.

GAO Recommendations on IEMP

In 2003, GAO issued four reports that identified weaknesses in NASA's strategy for developing and implementing IEMP. These weaknesses included the processes that

NASA followed to acquire system software, the identification, management, and testing of system specifications, and IEMP cost control. In its reports, GAO expressed concern about the impact these weaknesses could ultimately have on the system's performance.

Another major weakness identified by GAO was NASA's lack of an enterprise architecture to guide the development and implementation of IEMP. An enterprise architecture is an organizational blueprint that defines—in both business and technology terms—how an organization operates today, how it intends to operate in the future, and how it will transition to the future state. The Clinger-Cohen Act of 1996 requires agencies to develop, maintain, and implement such architectures for use in managing the integration of their business processes and systems.

To help correct the identified weaknesses in IEMP, GAO made a total of 45 recommendations to NASA. GAO recently completed a follow-up review to determine the extent to which NASA has addressed its recommendations. At this hearing, GAO will be releasing a report that discusses the results of its review and the status of NASA's efforts to address its recommendations. GAO found that NASA's overall progress has been slow, particularly with respect to establishing an enterprise architecture, but it has made some progess in other areas such as enhancing the Core Financial module's ability to provide project management information. Of GAO's 45 recommendations, the report indicates that NASA has fully implemented three recommendations and has partially implemented another 13 recommendations. A summary of the status of GAO's recommendations is provided in Appendix A.

Internal Control Issues

An integrated financial management system can only function as well as an agency's underlying policies and procedures. Those policies and procedures that help ensure the accuracy and timeliness of financial data are called internal controls. Federal agencies are required to have internal controls in place to provide reasonable assurance that transactions are processed and recorded properly, that financial reports are reliable, and that the agency complies with all applicable laws and regulations. Internal controls should also provide reasonable assurance regarding the prevention or prompt detection of any fraud, waste, or abuse.

Because of the weaknesses in the Core Financial module and in various NASA processes, NASA's independent auditors pointed out the need for additional controls to ensure that transactions are recorded accurately and that any errors are detected and corrected in a timely manner. The auditors noted that internal control weaknesses included the Core Financial module's inability to track non-routine or correction entries, the lack of formalized policies and procedures for certain processes, such as the development of financial statements, and a lack of adequate documentation to support certain transactions. The auditors made a number of recommendations to improve controls, such as enhanced reconciliation and analytical procedures. They also noted that as of September 2004, NASA had developed revised policies and procedures to address several of the noted weaknesses. However, because these new policies and procedures were not in place until the end of the fiscal year, the auditors could not assess their effectiveness.

The following sections address specific internal control issues.

Fund Balance with Treasury

An agency's Fund Balance with Treasury account is similar to a bank account in that it represents money that the agency can spend for authorized transactions. A key control in ensuring that an agency's transactions are accurately recorded is the reconciliation of its Fund Balance with Treasury account with the U.S. Treasury's records.

For fiscal year 2003, NASA's auditors found that NASA could not reconcile the difference between its Fund Balance account and the Treasury's records. The balance in NASA's Fund Balance account exceeded Treasury's records by a net amount of $1.7 billion. However, the absolute value of the differences for the individual transactions comprising the unreconciled amount was $8.6 billion. NASA attributed much of the unreconciled amount to difficulties in converting the data to the new Core Financial module, although it has not yet analyzed all transactions or determined how many transactions comprise this difference.

During fiscal years 2004 and 2005, NASA worked on analyzing and resolving the Fund Balance difference from fiscal year 2003. NASA's Office of Inspector General reviewed NASA's efforts to reconcile its Fund Balance account and in March 2005, reported that NASA's efforts had resolved $1.6 billion of the net difference, leaving a remaining unreconciled net difference of $144 million. However, the Office of Inspector General also pointed out that the absolute value of unreconciled differences for individual transactions was still over $7 billion.

Although it did not resolve all differences for the individual transactions from fiscal year 2003, NASA reported that its Fund Balance account balance agreed with the Treasury's balance as of September 30, 2005. To make the balances agree, NASA increased its Fund Balance account by $14 million to eliminate a difference that could not be traced to specific transactions. NASA also said that it had developed new procedures to avoid unreconcilable differences in the Fund Balance account in the future. It developed its own software program that compares the Fund Balance account balances for each NASA Center with the Treasury's balances on a monthly basis. The Centers are expected to resolve any differences each month and certify their results to the NASA CFO. Because these procedures are new, it is too early to know if they are effective.

Physical Assets

NASA reported the value of its Property, Plant, and Equipment (PP&E) and Materials to be almost $38 billion in fiscal year 2004. For several years, NASA's auditors have reported that the agency has serious weaknesses in internal controls over these assets, primarily because of NASA's heavy reliance on its contractors to accurately report costs to the agency. In 2004, about $8.5 billion of NASA's PP&E was held by contractors. Contractor-held assets include everything from office supplies to rockets and buildings. Rather than maintaining its own records of these assets, NASA relies on quarterly or monthly reporting by the contractors. While NASA periodically reviews the contractors'

controls over the reporting of these assets, NASA's auditors have found these procedures to be insufficient in the past.

NASA also relies on contractors to report the costs of developing or building its numerous large, complex assets such rockets, satellites, and exploration equipment. When such assets are completed and turned over to NASA, NASA has no systematic process to ensure that the assets are properly recorded in its records. Instead, it relies on periodic data calls to ensure that all assets are identified, and on property managers to record the cost of the asset based on their review of certain accounting codes within the Core Financial module. This process does not provide a means to ensure that all costs for NASA's assets are recorded.

In fiscal year 2004, NASA took some steps to improve controls over its assets. It developed a quality assurance program in which it uses services of the Defense Contract Audit Agency to review policies and procedures and to test transactions at its most significant contractors. It also increased the required frequency of reporting by contractors. Its auditors reported that they had noted some improvement as a result of these efforts. In addition, NASA recently established a team to work on developing new procedures for controlling and recording the costs of property.

Contract Management

Since 1990, GAO has identified NASA's contract management as a high-risk area because of vulnerabilities to waste, fraud, and abuse. GAO attributes these vulnerabilities primarily to NASA's lack of a modern financial system that can provide reliable information on contract spending and performance. Also, GAO found that NASA lacked data analysis tools and adequately trained staff to perform cost analyses, including a contract management method called "earned value management."

Although NASA obtains detailed cost and performance information for some of its larger contracts, this information is not recorded in the Core Financial module because the module's accounting code structure, which was carried over from NASA's legacy accounting systems, is not designed to handle this level of detailed information. However, detailed cost information is needed by both program managers and cost estimators. To improve the Core Financial module's ability to maintain detailed, useful cost information, NASA has a project underway, called Project Management Information Improvement (PMI^2), to align its accounting code structure with its technical work breakdown structure. NASA reported that it completed the first phase of this effort this month. In addition to providing better cost information, NASA expects this new structure to also improve its ability to account for assets.

Environmental Liability

In their annual financial statements, agencies are required to report the estimated amount of liability they have incurred for environmental cleanup as a result of their activities. For fiscal year 2004, NASA reported this liability to be almost $1 billion. However, its financial auditors reported that NASA lacked sufficient, auditable evidence for this estimate. They also noted that the personnel who prepared the estimate had inadequate

training and guidance to follow, and NASA lacked quality control procedures to ensure the accuracy of the estimate.

OMB Circular A-123

The Office of Management and Budget (OMB) recently revised its Circular A-123, *Management's Responsibility for Internal Control*, to strengthen agency management's responsibility for internal control over financial reporting. The revised Circular, which became effective this month with the start of fiscal year 2006, contains provisions similar to those in the Sarbanes-Oxley Act of 2002 for publicly traded companies. Previously, Circular A-123 required management to assess and report annually on overall internal controls within an agency, including a corrective action plan for any known weaknesses. The newly revised Circular now requires, in addition to previous requirements, that management provide a separate assurance statement on the effectiveness of internal control over financial reporting. To provide this assurance statement, agencies are required to document their controls over financial reporting, follow specific procedures for assessing these controls, and document these assessment procedures.

In preparation for complying with the revised Circular, NASA submitted a *Financial Management Internal Control Plan* to OMB in August 2005. The plan outlines steps NASA has already taken as well as steps it plans to take to meet the new requirements of the Circular. OMB's opinion of this plan is not known.

Questions Asked of the Witnesses:

In their letters of invitation, the witnesses were asked to address the following questions in their testimony:

Mr. Robert Cobb:

1. What progress has NASA made in addressing the financial management challenges identified in the audit reports from the past two years? Specifically, address each of the following areas identified in previous audits:
    - internal control weaknesses and financial statement preparation procedures, including inconsistent procedures among NASA Centers;
    - discrepancies in Fund Balance with Treasury;
    - controls over Property, Plant, and Equipment, and Materials; and
    - controls over estimating NASA's environmental liability.

2. What financial management challenges remain? What are the underlying causes of these challenges? How will the new requirements levied in Office of Management Budget Circular A-123, "Management's Responsibility for Internal Control" present new challenges to NASA's financial management efforts?

3. What progress has NASA made in implementing an integrated financial management system? How have the problems with the financial management system affected the agency's ability to effectively manage its programs?

4. What does NASA need to do to address its remaining financial management deficiencies, including staffing, budget, etc.? What areas of NASA's current corrective action plan need increased attention?

Ms. Gwendolyn Sykes:

1. What specific steps has NASA taken to address the financial management challenges identified in the audit reports from the past two years? Specifically address each of the following areas identified in previous audits:
    - internal control weaknesses and financial statement preparation procedures, including inconsistent procedures among NASA Centers;
    - discrepancies in Fund Balance with Treasury;
    - controls over Property, Plant, and Equipment, and Materials; and
    - controls over estimating NASA's environmental liability.

2. What financial management challenges remain? What specific plans does NASA have to address these challenges, including specific milestones or target dates? What is the status of efforts to implement the new requirements levied in Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control"?

3. How have delays and other changes in the planned implementation of the new financial management system affected NASA's ability to address its financial management challenges?

Mr. Ciganer:

1. What is NASA doing to correct the weaknesses with the Core Financial module of the Integrated Enterprise Management Program (IEMP) identified in previous audit reports? Specifically address each of the following:
    - the system's inability to process certain types of transactions and to produce transaction-level details;
    - the system's lack of integration with certain subsidiary systems such as the property systems; and
    - security controls over IEMP.

2. GAO found deficiencies with NASA's approach to developing and implementing the IEMP. GAO recommended that NASA employ "best practices" such as identifying all system requirements up front, rigorous testing, and disciplined management. What actions has NASA taken to ensure that it follows "best practices" in developing and implementing IEMP modules, such as the upgrade to the Core Financial module and the planned Integrated Asset Management module?

3. What is the status of NASA's effort to develop a life-cycle cost estimate for IEMP? What is the current estimate of the life-cycle cost for the IEMP and when will IEMP be fully operational?

Mr. Gregory Kutz:

1. Please provide your assessment of NASA's key financial management challenges. What are the underlying causes of these challenges and how do these compare with

problems found at other federal agencies? Have NASA's financial management problems resulted in additional costs to taxpayers?

2. What progress has NASA made in implementing the recommendations from GAO's series of reports released in 2003 on NASA financial management? Which recommendations have yet to be fully addressed by NASA that are of greatest concern?

3. What does NASA need to do to address its financial management deficiencies? What areas of NASA's current corrective action plan need increased attention?

APPENDIX A

GAO's Assessment of NASA's Progress Toward Implementing GAO's Recommendations

Recommendations	Closed	Partially Implemented	Open	Comments
Recommendations to improve NASA's procedures for managing the acquisition of systems. (2 recommendations) *GAO-03-507*	0	2	0	Key elements of dependency analysis methodology still lacking. Suitability of already acquired components not evaluated before acquiring additional components.
Recommendations regarding development and use of enterprise architecture. (22 recommendations) *GAO-04-43*	1	4	17	Architecture still missing important content and key architecture management processes not yet established. Already-implemented system components not mapped to architecture.
Recommendations to minimize the risks of relying on already-deployed IEMP components with known weaknesses, such as the Core Financial module. (6 recommendations) *GAO-03-507*	0	0	6	NASA did not develop a formal corrective action plan to mitigate risks.
Recommendations regarding defining IEMP management needs and reengineering business processes. (2 recommendations) *GAO-03-507*	1	0	1	Stakeholders engaged to define program management needs. Plans to reengineer contractor cost reporting processes still several years away.
Recommendations to improve NASA's management and testing of system requirements prior to implementing a system. (3 recommendations) *GAO-03-507*	0	3	0	New requirements management methodology and tools acquired for future modules, but core financial module requirements not yet fully defined.
Recommendations to improve external financial reporting. (4 recommendations) *GAO-04-151*	0	0	4	Little progress made in developing a detailed plan for delivering a financial system that substantially complies with federal standards.
Recommendations regarding IFMP program life-cycle cost estimates and funding reserves. (6 recommendations) *GAO-04-118*	1	4	1	Significant progress made in preparing life-cycle cost estimate, but consistency and support for estimates still lacking.
Total	**3**	**13**	**29**	

APPENDIX B

Glossary

Audit opinions:

Disclaimer of opinion – when auditors are unable to determine the reliability of financial statements. This situation can occur if an organization has significant weaknesses in its internal controls or if the auditors are unable to perform sufficient audit work.

Qualified opinion – when auditors find one or more items in the financial statements that do not conform with generally accepted accounting principles. However, the auditors do not believe that these items are so significant as to invalidate the financial statements taken as a whole.

Unqualified opinion – when auditors believe the financial statements fairly present an organization's financial position and results of operations in conformance with generally accepted accounting principles.

Enterprise architecture – an organizational blueprint that defines—in both business and technology terms—how an organization operates today, how it intends to operate in the future, and how it will transition to the future state.

Enterprise Resource Planning or ERP – a type of software that consists of multiple, integrated modules designed to perform all business-related functions of an organization, such as planning, inventory control, finance, and human resource management.

Material weakness – a reportable condition in which the design or operation of one or more internal controls does not, in the auditor's opinion, provide reasonable assurance that any significant misstatements in amounts would occur and not be detected in a timely manner by employees carrying out their normal functions.

Reportable condition – when a significant deficiency exists in the design or operation of an internal control that, in the auditor's judgment, could adversely affect an agency's ability to record and report financial data in compliance with generally accepted accounting principles.